

Perfectly legal  
ways to

**PAY LESS**

**TAX**

**140 tips** that  
will save you money

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Perfectly Legal  
Ways to Pay  
**Less Tax**

- on tax overpaid, the rate is the Bank of England base rate minus 1 per cent but subject to a minimum rate of 0.5 per cent.

Interest is automatically charged on any tax left unpaid after the 31 January or 31 July payment deadlines.

## How to pay

The Revenue has been expanding the methods available for paying tax. To pay a tax bill that is already due, you can choose between:

- sending a cheque by post
- paying cash, cheque or debit card at any Post Office or your own bank or building society branch
- using phone or internet banking to transfer the payment direct from your own to the Revenue's bank account. The payslip or payment reminder you receive includes the Revenue bank account details that you will need
- paying by internet using a debit or credit card. For how to do this, see [www.billpayment.co.uk/hmrc/scripts/index.asp](http://www.billpayment.co.uk/hmrc/scripts/index.asp). If you use a credit card, you must also pay a transaction fee
- paying over the internet by direct debit, provided you are registered for the Revenue's internet filing service
- buying certificates of tax deposit (see [www.hmrc.gov.uk/payinghmrc/cert-tax-deposit.htm](http://www.hmrc.gov.uk/payinghmrc/cert-tax-deposit.htm)). These work rather like buying savings stamps. The minimum you can have saved with certificates of tax deposit at any time

is £500 and you can buy further certificates in amounts of at least £250.

If you use the Revenue's online filing service, you also have the option of setting up a budget payment plan which is a direct debit to make regular weekly or monthly payments that reduce your next tax bill. To be eligible your current tax payments must be up to date. You cannot withdraw the advance payments you have already made but you can, at any time, alter the amount of your future payments, suspend them for up to six months or cancel the plan. Your advance payments do not earn interest.

**16 Tax-saving idea** A budget payment plan or buying certificates of tax deposit can help you plan for future tax bills and so avoid late payment penalties. Financially you may be better off setting up a direct debit to pay regular savings into a bank or building society account that pays interest on your savings, but you need to be confident you would not withdraw the money to use for anything other than your tax bill.

**17 Tax-saving idea** Failing to pay tax on time results in interest charges and penalties and the Revenue is quick to chase late payments. If you are having problems paying your tax bill, contact your tax office straight away. You may be able to negotiate an agreement, for example to pay by instalments and avoid penalty charges.

**18 Tax-saving idea** To help businesses the Revenue has launched a new Business Payment Support Service. If you anticipate that you will not be able to pay your tax on time, the Revenue may agree a tailored package to pay the tax owed on dates or in stages that match your cash flow. Interest will be added to tax paid late, but no penalties or surcharges will be incurred. To find out more, see [www.hmrc.gov.uk/payinghmrc/problems/bpps.htm](http://www.hmrc.gov.uk/payinghmrc/problems/bpps.htm) or call the Business Payment Support Line on 0845 302 1435.

## The PAYE system

Your employer or private pension provider is an unpaid tax collector for the Revenue using the PAYE system – Pay As You Earn. Every time employees or pensioners are paid, income tax and national insurance contributions are deducted from the earnings or pension and sent in a batch to the collector of taxes. Your employer is also responsible for collecting student loan repayments on behalf of the government through your pay packet.

Your employer or pension provider needs various bits of information to operate the PAYE system, in particular a PAYE code for each employee or pensioner. This is issued by the Revenue and tells the employer or pension provider how much tax-free pay to give you each month or week. The Revenue also sends you a notice of your PAYE code, for example in January or February in time for the coming tax

year or when your circumstances change. You will not necessarily get a notice every year. You can request a coding notice at any time.

**19 Tax-saving idea** According to the National Audit Office (a body that keeps a watch on the government's money management), around three out of ten tax coding notices contain errors. If your PAYE code is wrong, you may pay too much tax and have to wait for a rebate. And, although paying too little tax might seem attractive, you will have to make up any underpayment in the following tax year – often in one go if it is £2,000 or more. So it makes sense to check your PAYE code carefully whenever you receive a notice of coding.

## The coding notice

The coding notice (form P2) sets out the Revenue's calculations to arrive at your PAYE code. Your employer uses the code in conjunction with tax tables supplied by the Revenue to work out how much tax to deduct from your pay.

If you work for two employers, you should have two PAYE codes – one for each job – and two coding notices. If you are retired and receive an occupational and/or personal pension, you will also have tax deducted through PAYE. If you have just one main pension, you'll get one PAYE code. If you have two or more substantial pensions, you may get a code for each one.

Your employer usually makes various other adjustments to your gross salary to arrive at your take-home pay. These can include deduction of national insurance, student loan repayments, pension contributions and donations to charity through payroll giving. None of these is reflected in your PAYE code.

## **Claiming a tax refund**

If you have paid too much tax through PAYE because you have stopped doing a job part way through the tax year, a refund will be arranged automatically by your new employer or the Jobcentre Plus office handling your benefit claim. But, if you are neither going to a new job nor getting benefit, claim a tax rebate using form P50.

In other cases where you have paid too much tax – for example, because tax has been deducted from your savings income but you are a non-taxpayer – claim a refund using form R40. Do not send any documents, such as certificates of tax deducted, with the form but keep them safe in case your tax office asks to see them. The Revenue normally aims to process your claim within 28 days. You do not have to wait until the end of the tax year to make a claim but repayments of less than £50 are not usually made mid-year.

Either ask your tax office for the relevant claim form or download it from [www.hmrc.gov.uk](http://www.hmrc.gov.uk). You can't submit these forms online.

Take care when claiming tax back. If you make an error, you are liable for the same penalties as apply to mistakes made in a tax return.

# PAYE and students

Increasingly, students take on some paid work to help finance their way through college. If you expect to earn less than your personal allowance and will be working only during the holidays, you may be able to arrange to be paid gross by completing form P38(S), available from the Revenue website. However, the employer does not have to agree to this and can opt instead to pay you through PAYE in the normal way.

You cannot use the P38(S) system if you work during term time.

Being taxed through PAYE means you can pay too much tax. There are ways to get it back:

- if you take another job during the tax year, you may get a refund through PAYE operated by your new employer. This is most likely if you can give the new employer a P45 (a form you should be given when you leave a job, summarising your tax and pay from that job)
- you can claim a refund once the tax year has ended by contacting your tax office (which will be shown on your tax or pay documents)
- you may be able to claim one or more refunds during the course of the tax year using form P50 available from the Revenue website.